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NEA/ARP FOR NATASHA FRANCESCHI

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TAGS: [EAGR](#) [EAID](#) [ECON](#) [ETRD](#) [YM](#)  
SUBJECT: NO RELIEF IN SIGHT FOR PRICE INFLATION IN YEMEN

REF: SANAA 1343

Classified By: DCM Angie Bryan for reasons 1.4(b) and (d)

11. (C) SUMMARY: High price inflation and increasing poverty sparked numerous demonstrations throughout Yemen between August-November 2007. The ROYG has taken only small steps to curb inflation, many of which treat symptoms rather than causes. The only long-term solutions may be greater competition in the supply of basic commodities and sustainable economic development. END SUMMARY

WORST INFLATION IN ARAB WORLD  
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12. (U) Since July 2007, Yemen has continued to face high price inflation on basic commodities, including wheat, flour, milk, rice, cooking oil, coffee, and propane gas. During the month of Ramadan (September 13-October 13, 2007), the cost of one kg of flour doubled from 120 to 240 Yemeni riyals. By comparison, benchmark U.S. wheat prices rose 40 percent between January-August 2007, reaching USD \$6.84 per bushel. According to the World Bank, future prices of U.S. wheat are expected to rise to USD 8.45 per bushel by March 2008, before the new harvest arrives. In a November 13 Yemen Times editorial, "In elegy of the loaf," Yemeni intellectual Abdulaziz al-Maqaleh lamented that higher wheat prices have forced merchants to reduce the size of bread loaves. Outside of the food sector, the cost of a 20-liter propane gas cylinder increased from 430 to 730 Yemeni riyals during September 2007. The Arab Unity Economic Council reported in September 2007 that inflation in Yemen was the highest among all Arab countries, averaging 15.5 percent in 2006 -- more than twice the UAE's inflation rate of 7.7 percent.

A HUNGRY MAN TURNS INTO A DEVIL...PREPARE FOR AN EXPLOSION  
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13. (C) High prices sparked several demonstrations in Sana'a, Taiz, Lahj, Al-Dhale'a, and Al-Mahara governorates during August-November 2007. During one demonstration in Taiz, thousands of people gathered outside the main building housing the governorate offices. One of the demonstrators held up a loaf of bread with a handwritten phrase "Yemen Jadeed, Mustaqbal Afdal," meaning a "New Yemen, Better Future," in an apparently ironic reference to the primary slogan used during President Ali Abdullah Saleh's September 2006 presidential campaign. According to al-Jazeera.net, at least one person was killed and nine wounded in price-related clashes between Yemeni police and demonstrators in Sana'a on September 1. ROYG Deputy Minister for Trade Affairs Iqbal Bahader summarized the situation to Econoff on November 26 using the Arabic expression "a hungry man quickly turns into a devil." Sana'a Chamber of Commerce and Industry Chairman Mahmoud Shammakh warned Econoff on November 29 that "Poor people in Yemen can only afford to eat bread and yoghurt."

Hunger is a bad thing ... prepare for an explosion."

#### ROOT CAUSES

14. (C) Persistent price inflation in Yemen has a number of causes. One is increased demand. Traditionally, prices are higher in Yemen during the month of Ramadan because of higher demand for basic commodities, like wheat, bread, and cooking gas related to holiday celebrations. (Note: Prices of basic food commodities typically go up during Ramadan and stay up after Ramadan, while the prices of other goods, like clothes, go up during Ramadan but fall afterwards. The year 2007 followed the same pattern. End note) Additionally, the high oil prices (see para. 7) have led to higher remittances from Yemenis working in Gulf countries. These higher remittances increased the amount of funds available to Yemenis for purchases and therefore further drove up demand for food and other consumer goods, as did an eight percent increase in public sector salaries during Ramadan (see para. 11).

15. (C) Limited supply is the second factor driving Yemeni price inflation. Bahader noted to Econoff that environmental events such as floods in Vietnam, storms in Bangladesh and increasing desertification in Australia have cut deeply into the international supply of foodstuffs. Additionally, the ROYG Ministry of Agriculture and Irrigation reported on August 26 that locust infestations inside Yemen cost the economy 600 billion Yemeni riyals. Finally, the shortage of agricultural land and irrigation water in Yemen forces the country to import most of its food. (Note: A large portion of the water supply is allocated to the production of qat. End note.) According to the World Bank, Yemen is the 15th-largest importer of wheat in the world, buying two million metric tons per annum.

16. (C) According to Bahader, the devaluation of the US dollar is a third factor in Yemeni's price inflation spike. The Yemeni riyal is pegged to the U.S. dollar and therefore loses purchasing power whenever the USD does.

17. (C) Senior World Bank Economist Ali Abdulrazzaq told Econoff on November 29 of a fourth driver of price inflation: oil prices. The high price of oil drives up the cost of agricultural production and freight costs. Also, as mentioned in para. 4, higher oil prices lead to higher remittances from Yemenis working in the Gulf, which in turn leads to increased demand for goods and services inside Yemen, thus driving up prices.

18. (C) Other experts point to other underlying structural reasons for price inflation in Yemen. In a November 27 meeting with Poloff, Abdallah al-Manakhi of the Yemen Consumer Protection Association said that there is a lack of competition and that the supply of basic commodities is controlled by a cartel of 10-15 major trading families. He added that the variety of products is especially limited for low income people in Yemen, who he said are "forced to eat anything (including) low quality and expired goods." According to several media reports, tons of wheat have rotted in warehouses throughout Yemen. During an August 14 speech at the Fourth General Conference of the Cooperative Agricultural Union, President Ali Abdullah Saleh blasted major wheat importers, who "monopolized the marketing of wheat and do not respect the government or the Yemeni people."

19. (C) Shammakh linked price inflation to "corruption," which is rampant on a variety of levels, including bribes offered in the marketplace and the exorbitant customs duties charged on imported goods, which drive up prices. Shammakh told econoff that "20 percent of the cost of every product is attributable to corruption."

#### GOVERNMENT INTERVENTION TOO LITTLE OF THE WRONG MEDICINE

10. (C) Not much action has been taken by the ROYG to combat

price inflation, and most people are resigned to continued high prices. Deputy Minister of Trade Bahader indicated that the ROYG has still not built any of the ten grain silos promised by Minister of Industry and Trade Yahya Mutawakel on July 29. Bahader further noted that the Ministry of Industry and Trade (MOIT) marketplace field inspection units deployed in marketplaces throughout Yemen to ensure that merchants are complying with price ceilings are more of a monitoring than enforcement mechanism. These units simply record marketplace activity, according to Bahader, but do not enforce price ceilings or refer violators to prosecution.

¶11. (C) Although the ROYG has not taken much action overall, it has undertaken some steps to curb high prices. For example, in August, President Salah announced that the ROYG would support wheat farmers in Wadi Hadramout, Tehama, Baihan, Al-Boun, Al-Jawf and Marib and would buy their produce at a premium over the market price. The ROYG has also authorized the parastatal Yemen Economic Corporation (YECO) to import 600,000 tons of wheat and directly market it to the public at cost, in competition with the four major private traders. ROYG Minister of Industry and Trade Mutawakel has pushed to amend Article 28 of the Foreign Trade Law regarding non-Yemeni importers in order to boost competition in basic commodities, thus leading to a reduction in prices. The ROYG has also sought to increase its imports of wheat. In August and September 2007, it imported an additional 201,600 tons from the United States and in October 2007 secured USD 70 million in funding from the Arab Trade Financial Program of the Arab Monetary Fund to import wheat from Syria. Finally, the ROYG increased public sector employee salaries by 8 percent during the month of Ramadan; Bahader said that the ROYG would increase salaries even more by the end of November. As of December 2, however, the ROYG had announced no such salary increases.

#### MIXED OUTLOOK ON FUTURE PRICES

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¶12. (C) As World Bank economist Ali Abdulrazzaq pointed out, inflation is high compared to previous years. In 2005, food price inflation was only 12-13 percent. It jumped to nearly 30 percent in 2006 and is expected to be between 16-20 percent by the end of 2007. Some experts feel that food price inflation may be lower during the first or second quarter of 2008, but this all depends on oil prices and the prices of commodities in the international marketplace.

#### COMMENT

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¶13. (C) As noted in reftel, there are no quick fixes to price inflation in Yemen. The ROYG is at a loss as to how to respond. Raises in public sector salaries will not solve the problem, as higher incomes increase the demand for consumer goods and thereby worsen inflation. High oil prices will, likewise, continue to fuel inflation. Since Yemen is a major importer of basic commodities, it will always be vulnerable to fluctuations in the world marketplace. The only way out will likely be greater competition in the supply of basic commodities and sustainable economic development in key areas like agriculture, fisheries and tourism. End comment.

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